Outsourcing Wave Hits Investment Bankers

It's not just IT support anymore. Banks increasingly are taking their research analysis operations abroad -- and deal-making may be next.

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NEW YORK (CNNMoney.com) - First came IT outsourcing. Now comes investment banking.

After years of outsourcing technology support and other back-office operations to countries like India and China, financial institutions are increasingly looking to move large portions of their investment banking operations abroad, according to a recent report by Deloitte Touche Tohmatsu.

Faced with a dearth of skilled workers and shrinking profit margins, banks that want to remain competitive in the global marketplace can't afford to miss out on high-quality -- and cheaper -- foreign talent, the report said.

As a result, what began as technology support is now morphing into more analytic operations.

"Most of the large financial institutions were in the IT side of outsourcing but as they leveraged that experience, they got more interested" in moving more of their investment banking and research activities abroad, said Niket Patankar, chief executive of outsourcing firm Adventity Inc.

Among the leaders in outsourcing and offshoring are the big investment banks: Citigroup (Research), Morgan Stanley (Research), Lehman Brothers (Research) and JPMorgan Chase (Research). Typically, those banks have moved their research analysis operations offshore in order to take advantage of the time difference between the U.S. and Asia as well as the **cheaper labor.**

"Investment banking has **a lot of number crunching that to a large degree can be done anywhere,"** said Alenka Grealish, manager of the banking group at Celent LLC. "By taking press releases and data feeds and digesting them offshore, the components can be made into basic analyst reports" that are available to clients early in the morning.

Going one step further

JPMorgan Chase, however, is taking its investment banking activities abroad a step further. The company was one of the first investment banks to not only transfer the company's back-office and call-center operations but to also hire research analysts in India, Hong Kong and Singapore to complement its U.S.-based research team.

After piloting the program in 2003 with about 1,200 employees in India, the company announced late last year that it plans to have a total of 9,000 employees in India by the end of 2007, with one-third of those employees working for the company's investment banking unit. **Not only will the Indian workers handle research and analysis for the bank but will also be responsible for its foreign exchange trades and its highly complicated credit derivatives contracts.**

Some experts expect that as banks become more comfortable with their offshore operations and foreign talent becomes more attuned to the companies' way of doing business, **financial institutions may even shift some deal-making responsibility onto its foreign employees**.

The Deloitte Touche Tohmatsu report indicated that offshore operations give financial services companies a foothold in new and emerging markets such as China, where there are more revenue opportunites than mature markets like the U.S. The report also predicts that **driven by the need to take aggressive cost-cutting measures, the financial services industry will move 20 percent of its total costs base offshore by the end of 2010, compared to the current average of 3.5 percent.**

Although no numbers are yet available, Peter Lowes, principle and head of outsourcing advisory services at Deloitte Consulting LLP, said in a few years, **banks may increasingly rely on offshore talent to conduct due diligence and to screen prospective clients for investment banking business.**

And while there is no single, authoritative source on the specific number of U.S. investment banking jobs that could be lost to offshoring, Forrester Research predicts that **within 10 years, at least 3.3 million U.S. jobs across industries will be shipped to lower-cost and developing countries such India, China and the Phillipines.**

A competitive necessity

"I believe the industry has reached such a level of globalization that **it matters less and less where the actual (research) is generated and matters more what the cost of generating those products are"** said Richard Bove, analyst at Punk Ziegel & Co. "Banks can't afford not to do (outsourcing) anymore."

It takes about three years for banks to see full benefits from an offshoring program, said Deloitte's Lowes, as companies overcome the initial learning curve of doing business abroad and gradually build their scale. Firms that aggressively expand their scope and scale will deliver much higher returns on the foreign investments than those that simply dabble in the practice, he said. Top performers can see cost savings of up to 60 percent while bottom performers report savings of less than 20 percent, Lowes said.

Lowes added that those companies that reinvest some of their cost savings towards continuing to expand their operations offshore are going to be the true long-term winners.

"The economics (of offshoring in banking) are strong and the risks are being successfully mitigated" he said. "Today it's a competitive necessity."